

News Release



Controller of the State of California - Kathleen Connell

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FOR IMMEDIATE RELEASE

CONNELL REBUKES STATE AUTHORIZATION OF KAISER \$400 MILLION TAX-EXEMPT BOND

Controller Questions Benefit to California

SACRAMENTO, June 25, 1998 -- Following yesterday's California Health Facilities Financing Authority (CHFFA) board meeting, State Controller Kathleen Connell questioned the board's decision to authorize a tax-exempt \$400 million bond issue to Kaiser Permanente -- only one week after Kaiser received permission for a 10.75 percent rate increase for California Public Employees' Retirement System (CalPERS) members next year. The Kaiser bond issue was the *largest* tax break ever given to a health facility by CHFFA. At the same time, last week's rate increase was the single *largest* HMO premium hike ever approved by CalPERS.

"Against my recommendation, Kaiser will receive tremendous benefits from a taxpayer-subsidized \$400 million tax-exempt bond just one week after demanding an historic premium increase for health care service in California," said Connell. "Californians should have received assurances from Kaiser that the cost savings available from lower financing rates would be translated into a concession on future rate hikes to its health care members. I intend to put pressure on Kaiser to reflect this financing advantage in lower premium rates next year."

The proceeds from the bond resolution made to CHFFA (a state financing authority that approves federal and state tax-exempt financing for non-profit health facilities) are to be used for construction and remodeling projects for seven Kaiser facilities; equipment and administrative office building purchases; capital expenditure reimbursement and to retire the costs of the bond issuance and insurance.

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Connell voted against the resolution, which passed 5-3. "I am fearful that the actions of the CHFFA board will result in subsidizing Kaiser's national losses on the shoulders of California's taxpayers. It appears that Kaiser's aggressive acquisition frenzy is being financed by California taxpayers and health care members and I am concerned that Kaiser received these concessions without making any assurances to increase the quality of their health care service," Connell said.

The Controller had urged the board to suspend the bond issuance vote until CHFFA obtained written responses from Kaiser detailing the components of the HMO's recently announced \$350 million loss, rationale for projected future health care costs and plans for expansion outside of California. Connell also inquired on the interrelationship between savings from the tax-exempt financing and the just-approved rate increase from CalPERS.

With the \$400 million bond issue, Kaiser now has outstanding CHFFA debt totaling approximately \$1,130,678,777. Following are debt comparisons: Catholic Healthcare West -- \$1,265,705,000; Sutter Health System -- \$707,442,518 and UCSF-Stanford Health Care -- \$300,000,000.

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